

**MINUTES  
of the  
FIRST MEETING  
of the  
REVENUE STABILIZATION AND TAX POLICY COMMITTEE**

**June 11, 2003  
Santa Fe**

On June 11, 2003, the first meeting of the Revenue Stabilization and Tax Policy Committee (RSTPC) for the 2003 interim was held in Room 322 of the State Capitol.

**PRESENT**

Sen. John Arthur Smith, Chair  
Rep. Donald L. Whitaker, Vice Chair  
Rep. Janice E. Arnold-Jones  
Sen. Sue Wilson Beffort  
Sen. Carlos R. Cisneros  
Rep. Anna M. Crook  
Rep. George J. Hanosh  
Sen. Timothy Z. Jennings  
Rep. Ben Lujan  
Sen. Roman M. Maes, III  
Sen. William E. Sharer  
Rep. Daniel P. Silva  
Rep. James G. Taylor

**ABSENT**

Sen. Mark Boitano  
Sen. Joseph A. Fidel  
Rep. Roberto "Bobby" J. Gonzales  
Sen. H. Diane Snyder  
Rep. Thomas C. Taylor

**Designees**

Rep. William "Ed" Boykin (*designee for Rep. Thomas C. Taylor*)  
Rep. Henry Kiki Saavedra (*designee for Rep. Roberto "Bobby" J. Gonzales*)  
Rep. Robert White

**Staff**

Cleo Griffith, Pam Ray, Amy Chavez and Cenissa Martinez

**Guests**

The guest list is in the meeting file.

The chair called the committee to order at 10:20 a.m. and summarized his approach to developing the agendas for the committee by focusing on identifying favorable and unfavorable tax policies, studying tax issues in other states and assisting the Blue Ribbon Tax Reform Commission (BRTRC) in gathering tax reform information.

## **INTRODUCTION**

Cleo Griffith of the Legislative Council Service staff explained the circumstances under which a designee of the RSTPC should replace a member of the committee. She stated that to promote continuity, a designee used to replace a member at a committee meeting should be from the same political party and same legislative house. Ms. Griffith also introduced the proposed work plan to the committee and explained that RSTPC meetings will be coordinated with meetings of the BRTRC.

The committee's questions and comments addressed:

- the need to comprehensively study the tax systems of states when making comparisons between them;
- the addition to the work plan of a discussion of the potential for taxation of 501(c)(3) corporations that act as competitive corporations on a state level;
- preparation for the special session on tax issues; and
- the committee's need to study state taxation revenues lost due to competition with Indian reservations.

The committee adopted the work plan and added the study of competition with Indian reservations to the plan.

## **PRINCIPLES OF TAXATION**

Jim Eads, executive director of the New Mexico Tax Research Institute, summarized the principles of tax policy promoted by the National Conference of State Legislatures. Mr. Eads discussed principles that emphasize the importance of a tax system that is complementary and reliable; promotes horizontal equity; is minimally regressive; facilitates taxpayer compliance; promotes fair, efficient and effective administration; is responsive to interstate and international economic competition; minimizes its involvement in spending decisions; is accountable to taxpayers; and promotes tax exporting in the tourism industry. Mr. Eads indicated that the principles might be used as a framework to evaluate tax legislation.

The committee's questions and comments addressed:

- whether private businesses that operate primarily to serve state government should be taxed by the state;
- tax compliance enforcement issues in other states;
- the costs and benefits of gross receipts tax pyramiding, including competitive disadvantages and revenue raised;
- whether tax decisions predominantly influence business decisions to locate in New Mexico;
- whether lower taxes attract businesses and ultimately improve economies;
- the importance of addressing fairness in a tax system;
- whether the model has taken into account the failures of tax systems in other states;
- the importance of solving water problems in addition to improving the tax system

- as a means to attract businesses to New Mexico;
- whether New Mexico should continue to rely on federal funding for state programs when considering tax reform issues; and
- whether 501(c)(3) corporations could be subject to state taxation.

### **OVERVIEW OF NEW MEXICO'S REVENUE SYSTEM**

James Jimenez, secretary of finance and administration, presented to the committee an overview of New Mexico state finances. Mr. Jimenez presented several statistics, including the gross state product, taxable gross receipts, aggregate state personal income, federal funds and grants received and unemployment and job growth rates. He also provided an overview of the amounts of the various revenue sources that comprise the general fund and other state sources of funds. The committee also heard statistical information regarding disbursements from the general fund and the different programs for which they are expended.

Other topics discussed by Mr. Jimenez included finances of New Mexico counties and municipalities and funding for public schools. Mr. Jimenez additionally discussed various objective evaluations of the New Mexico tax system and the criteria used to rate it. The criteria include equity, efficiency, adequacy to pay for expenses, reasonable administrative expense, simplicity, the existence of a broad tax base and low rates. Future trends for the New Mexico tax system were also highlighted. They include the movement to harmonize New Mexico's tax system with the tax systems of other states and a reduction in income taxes, which ultimately might result in a greater dependence upon the gross receipts tax for state revenues. Increased dependence upon the gross receipts tax and the growth of the service sector indicate that taxing services under the gross receipts tax might reap benefits for the state.

The committee's questions and comments addressed:

- the percentages of gross receipts taxes that are collected by the state, municipalities and counties;
- the amount of revenue generated by the food tax;
- the percentage of government spending that is reinvested in business economies;
- the possibility that raising incomes statewide will reduce dependence upon federal grants;
- the necessity to use government facilities, such as the national labs, to attract businesses to the state;
- changes to the tax structure that can severely impact local government revenues;
- whether the administrative cost of the corporate income tax exceeds the revenues that the tax generates;
- whether the large reserves of some agencies should be considered when tax policy decisions are made; and
- whether improvements in the state health care system are feasible in light of the improvements that must be made to the tax system.

## **COMPARISON OF NEW MEXICO'S TAX SYSTEM WITH OTHER STATES**

Tom Clifford, chief economist of the Taxation and Revenue Department (TRD), presented a comparison of New Mexico's tax system with the tax systems of other states. Mr. Clifford discussed the impacts of the personal income tax cuts adopted by the 2003 legislature. He stated that if the tax cuts are assumed to be phased in by tax year 1999, then total personal income tax collections would have been about \$230 million lower.

Mr. Clifford also discussed the ability to raise revenues and the fiscal need of states as indicators of the comparative fiscal performance of the states. In fiscal year 1996, New Mexico had the seventh-lowest fiscal capacity among the 50 states. The state had the second-highest fiscal need the same year. This data indicates that New Mexico is in an unusual fiscal position because it faces high demands for public services and low resources in its tax base.

Mr. Clifford also presented data regarding the distribution of the tax burden among families with different levels of incomes and concluded that New Mexico's tax distribution is comparable to other states. The appeal of the tax system to businesses was also discussed. The 2002 Survival Index ranked New Mexico forty-seventh out of the 50 states and the District of Columbia in attractiveness to businesses. This ranking was based on factors such as personal income tax rates, capital gains tax rates, corporate income tax rates, state and property taxes as a percent of personal income, state and local gross receipts and sales taxes as a percent of personal income. Mr. Clifford compared New Mexico's state and local retail sales tax, gasoline tax, special fuel tax, motor vehicle excise tax, cigarette excise tax, beer excise tax, wine excise tax and spirits excise tax rates to the same taxes in other states.

Additional statistical tax information was provided to the committee, including "cheat sheet" tables that estimate the numerical effects of certain tax rate changes on tax revenues. Graphical and tabular estimates of different tax revenues collected by TRD were also presented. Mr. Clifford also distributed a handout that provided an overview of state and local taxes in New Mexico.

The committee's questions and comments addressed:

- the necessity to consider that other states have high sales taxes when comparing New Mexico's gross receipts tax system and its taxation of services to other states;
- the desire to improve the quality of empirical data regarding taxes and the possibility of networking with the New Mexico Tax Research Institute to obtain data;
- the necessity of taking into account New Mexico's low buying power when comparing New Mexico's gross receipts tax to the sales taxes of other states; and
- whether the state should distribute the gross receipts tax on a per capita basis.

## **ADJOURN**

The meeting adjourned at 3:50 p.m.